

April 21, 2008

TO: Certified Public Accounting Firms Interested in Conducting Audits of Montana Local Government Entities

FROM: Kay Gray
Bureau Chief

RE: Procedures for Renewal on Roster of Independent Auditors Authorized to Conduct Audits of Montana Local Government Entities -
Period From July 1, 2008 through June 30, 2009

Enclosed is an application form for renewal on the Department of Administration's roster of independent auditors authorized to conduct audits of Montana local government entities for the period from July 1, 2008 through June 30, 2009. The Montana Single Audit Act, which is codified as Title 2, Chapter 7, Part 5, of the Montana Code Annotated, requires that all certified public accountants conducting audits of Montana local government entities under the Act must be on a roster of independent auditors authorized to conduct local government audits that is maintained by the Department of Administration.

To remain on the roster, accountants must complete and submit the enclosed renewal form to the Department on or before **June 30, 2008**. The renewal form must be accompanied by the \$100 roster fee as authorized by the Act and as specified in the Administrative Rules of Montana.

Also, on the application for renewal form is a space for you to indicate whether or not your firm is interested in being prequalified by the Legislative Audit Division for submitting proposals on audits of State agencies. Some certified public accounting firms, including yours, may already be on the Legislative Auditor's list. We would, however, still appreciate your cooperation in indicating your current interest in this audit work on the renewal form. This information will then be forwarded on to that office so that they can ensure that all interested firms are given the opportunity to submit proposals on audits of State agencies.

As required by the Act, the Department, in consultation with the Board of Public Accountants, has adopted rules governing the: 1. criteria for the selection of the independent auditor, 2. procedures and qualifications for placing applicants on the roster, 3. procedures for reviewing the qualifications of independent auditors on the roster, 4. procedures for reviewing the qualifications of independent auditors on the roster to justify their continuance on the roster, and 5. fees payable to the Department for application for placement on the roster.

A summary of the requirements as specified in the rules is as follows:

1. Accountants must complete an application form for inclusion on the roster.
2. Accounting firms with separate offices registered with the Board of Public Accountants must submit separate application forms for each office that they wish to place on the roster.
3. Accountants must:
 - a. be currently registered with the Board of Public Accountants as required by law.
 - b. meet the continuing education requirements specified in Government Auditing Standards as established by the Comptroller General of the United States;
 - c. have an external quality control review at least once every three years that meets the requirements specified in Government Auditing Standards as established by the Comptroller General of the United States and receive **an unqualified review report** from the reviewing firm, team, or association.
 - d. not have been restricted in the conduct of governmental auditing by the Board of Public Accountants;
 - e. not have been debarred, suspended, proposed for debarment, declared ineligible, or otherwise excluded from performing audits by any state or federal department or agency;
 - f. not have been deemed ineligible to conduct local government audits by the Department because of failure to conduct audits in accordance with required auditing standards, because of failure to adhere to the terms of an audit contract or because of failure to file audit reports within 90 days of the dates specified in existing audit contracts without an approved extension from the Department.

The Department will automatically provide complete copies of the current administrative rules to all certified public accountants approved for placement on the roster of independent auditors authorized to conduct local government audits during the year ending June 30, 2009. Accountants can be removed from the roster for failure to continue to meet the eligibility requirements specified in the administrative rules.

With the cooperation of other State agencies, the Department is required to develop a legal compliance supplement for use in conducting local government audits. The *Montana Compliance Supplement* has now been placed on the Department of Administration, Local government Services Bureau, web site, <http://doa.mt.gov/lgsb/>. It is available there as both a PDF document and in a Word version.

As a reminder to all auditors, the selection criteria the local governments are to use in selecting an independent auditor are as follows:

1. listing on the Department of Administration's roster of independent auditors authorized to conduct local government audits,
2. independence, as defined by applicable auditing standards,
3. demonstrated understanding of the work to be performed,
4. technical experience of the independent auditor in conducting similar types of local government entity audits,
5. qualifications of staff to be assigned to the audit,
6. work history of the independent auditor, and
7. the proposed fee.

The Department can require that the local government demonstrate that the auditor selected is qualified to conduct the audit based on an evaluation of the above criteria and other information used by the local government in selecting the auditor.

All audits must be pursuant to a standard audit contract in a form prescribed by the Department. The contract must be signed by the certified public accountant and by the governing body or managing or executive officer of the local government and then be submitted to the Department of Administration for approval. **The contract is not effective, and audit work may not begin, until the Department has approved it.**

One of the main purposes of the Montana Single Audit Act is to provide for a quality review function for local government audits. A "limited" desk review is now performed on all audit reports when they are received. A smaller segment of the reports are subject to a more detailed quality control desk review. We attempt to perform such a review on at least one audit report submitted by each auditor, and if possible on one of each type of audit report (i.e., county, city/town, school district, etc.) submitted by each auditor. The number actually reviewed depends on overall program workload and staffing levels. Other reports will be reviewed based on several factors, including but not limited to the results of previous reviews of an auditor's work, complaints received by the Department, and random selection. Further, a limited number of sets of working papers will also be selected for review based on the results of the Department's quality reviews of the audit reports, on complaints received by the Department, and on random selection.

If deficiencies are noted during the above review process, the Act specifies that the auditor be given 60 days to correct the identified deficiencies. Finally, if it is determined that an audit or audit report fails to meet required auditing standards or if the report contains false or misleading information, the Department is required to notify the State Board of Public Accountants.

Please call the Audit Review Section of the Department of Administration at (406) 841-2907 if you have any questions or comments concerning the Montana Single Audit Act, on the administrative rules the Department of Administration has adopted to implement the Act, or on the application process or forms.

If you have questions concerning audits of State agencies or the auditor selection process used by the Legislative Audit Division, please contact that office at (406) 444-3122.

Please note that the application form requires you to include a copy of your firm's most recent external quality control or peer review report, as well as the acceptance letter from the peer review administering agency or body (Note: Usually the Montana Society of CPA's or the AICPA). If your peer review was conducted by another firm without any involvement or oversight by one of the peer review administering agencies or bodies, please so indicate by attaching a note to the copy of your review report. Such reviews are acceptable so long as the review meets the standards prescribed in *Government Auditing Standards* promulgated by the Comptroller General of the United States (2003 Revision - Paragraphs 3.49- 3.56).

Attachment I: An Attachment I to the roster application is included. In this Attachment we are requiring you to list the names of all your firm's staff members who, as of the time you complete the application, you plan to have involved in conducting local government audits in Montana during the year ended June 30, 2009. This listing is to enable us to test, on a sample basis, whether those individuals are meeting the continuing professional education requirements required by ARM 2.4.406 and *Government Auditing Standards*. (Note: If you have multiple offices, list only those staff members from the specific office listed on the roster application.)

Enclosure: Application for Renewal on Roster